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C O N F I D E N T I A L CARACAS 003638

SIPDIS

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SOUTHCOM ALSO FOR POLAD

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TAGS: ENRG PGOV VE
SUBJECT: Ramirez_ TAKES OVER PDVSA WHILE KEEPING ENERGY
MINISTRY

Classified By: Economic Counselor Richard M. Sanders. Reasons 1.4 (B)
AND (D)

Summary

¶11. (C) Minister of Energy and Mines Rafael Ramirez_ has been sworn in as President of state oil corporation PDVSA, while maintaining his ministerial position. Energy experts who have opposed Chavez publicly assert that his appointment marks the definitive end to PDVSA as a commercial (vice political/developmental) institution. Private reaction among our energy contacts is somewhat more nuanced. Ramirez_, originally viewed as a mere protege of outgoing PDVSA President Ali Rodriguez, had already become an important figure in his own right as Minister, and has been prepared to use Venezuela's oil resources to Chavez's direct political advantage. He takes over a firm which is being subjected to ever greater demands for resources to fund Chavez's "revolution," including, according to recent press reports, a tasking to provide an additional USD two billion for infrastructure projects. End summary.

Announcement Not a Surprise

¶12. (C) On November 20, President Chavez swore in Minister of Energy and Mines Rafael Ramirez_ as President of "Petroleos de Venezuela, S.A." (PDVSA), the state oil enterprise. He replaces Ali Rodriguez Araque, who leaves to take over the Foreign Ministry. Rumors about Ramirez_ assuming the position had circulated for the previous week. He will retain his Ministerial position. In a subsequent statement issued by GOV state press agency Venpres, Ramirez_ asserted that he would keep in mind the necessary separation between these two functions, saying: "We will be very scrupulous in this. To the Ministry that which is for the Ministry, to PDVSA, that which is for PDVSA."

¶13. (C) Unsurprisingly, petroleum experts opposed to Chavez took a dim view of his keeping the two positions. Alberto Quiros, former head of MARAVEN, a nationalized oil company ultimately folded into PDVSA, and later of Shell's Venezuelan operations, said that in having the energy minister head the state oil corporation, the GOV was following the "Saudi model,... which is applied by authoritarian governments to guarantee control of economic resources." Former Energy Minister and OPEC Secretary General Humberto Calderon Berti described the decision as "the formalization of the subordination of PDVSA to the desires of the executive branch."

Mixed Reactions from Industry

¶14. (C) Private reactions from local energy community are more nuanced. One well-connected local energy analyst reacted very positively to the (then) possibility that Ramirez_ would assume the presidency of PDVSA in a November 18 conversation with econoff. This analyst pointed to the stature that Ramirez_ has gained, both within the GOV and internationally, since he was named as Minister and posited that Ramirez_ would be able to put a stop to the continuing in-fighting within PDVSA and get the company going again. This would, he said, be a positive move for international oil companies trying to advance projects in Venezuela.

¶15. (C) However, other industry observers were less positive about Ramirez_, saying he has proven himself a good soldier who will do whatever Chavez orders him to do. A leading energy attorney in Caracas commented to econoff November 19 that there would probably be very little change since the Minister already has total control over PDVSA. In fact, she said, things could be worse because Ramirez_ does not have time to be Minister, much less both Minister and PDVSA President, because of the political responsibilities levied

on him by Chavez. ExxonMobil de Venezuela President Mark Ward also commented to econoff on November 18 that he believed that Ramirez would, in fact, continue "to play the political side of things," and that the relationship of the international oil companies with PDVSA would not improve.

Technician and Pol

17. (C) Ramirez has shown a combination of technical/managerial skills and political loyalty that has made him a highly valuable to Chavez. A mechanical engineer who worked on natural gas issues for the Ministry, he was elevated to run it when Rodriguez left to take over PDVSA in 2002. Originally viewed as very much Rodriguez's man, he became a figure in his own right, and indeed a "star" within the Bolivarian government, when as Minister, he coordinated the successful effort to bring PDVSA production back up, thus breaking the December 2002-February 2003 general strike which threatened to bring the Chavez government down. Since then, he has taken a lead role in making PDVSA the direct bankroller and to a considerable extent the executor of the "missions" in education and housing which were been so crucial to Chavez's August 15 defeat of the effort to recall him. His ministry has increasingly been the center of gravity for strategic decisions on hydrocarbons policy. While international oil companies have been able to move forward on negotiations, as in the case of ChevronTexaco with regard to the Deltana Platform natural gas project, they have also had to face abrupt, politically motivated decisions, such as the recent unilateral increase in royalties the GOV requires on production from the Orinoco heavy oil installations.

Chavez Asks for More Money

18. (C) Almost simultaneous with the naming of Ramirez to PDVSA has come a requirement that PDVSA replenish a USD two billion infrastructure account that it had previously funded, according to press reports. An initial USD two billion had been provided to this fund, which is kept at the state-owned Bank for Economic and Social Development (BANDES). Reportedly, the funds have been designated for major projects, such as a highway to eastern Venezuela. (Comment: Our understanding is that while the money may have been designated for specific uses, much of it is still unspent. Presumably with that process now beginning, the GOV wants to top it off again, given that the fund has been described as "revolving." End comment.)

Comment

19. (C) Ramirez's nomination underscores the fact that Chavez has little talent - or at least little talent that he trusts - to call upon. It also makes clear the importance he gives to direct political control of PDVSA. Ramirez's appointment will not have much near-term impact on the problems faced by the international oil companies in their dealings with PDVSA, i.e., the slowness of decision making, new concerns about contract sanctity and so on.

110. (C) It is not clear what whether as new president of the firm, Ramirez will have the go-ahead to resolve the constant squabbling over turf (and attendant graft) among the factions entrenched at PDVSA. Since the purges at the company following the December 2002-February 2003 general strike, the main factions found within PDVSA management are made up of officials linked to Ali Rodriguez's "Patria Para Todos" (PPT) party, ones linked with the far larger "Movimiento Quinta Republica" (MVR), the principal pro-Chavez political vehicle, and military officers directly linked to Chavez. Some PDVSA-watchers have also identified a faction linked with Hector Ciavaldini, a former PDVSA President who later broke with Chavez (though not before tossing some

lucrative PDVSA contracts in the direction of companies associated with his own family), and a rump group of "institutionalists," who did not actually walk out during the strike and hence retained their jobs. It has also been suggested that Ramirez will bring his own people, a group of fellow graduates of the University of the Andes in Merida, into senior positions at PDVSA. While Ramirez was originally beholden to Ali Rodriguez, as part of the PPT, to which Ambassador to the U.S. Bernardo Alvarez is also affiliated, his appointment to PDVSA is recognition of his own politico-revolutionary credentials.

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